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FEDERAL RESERVE (CARLOS ARTETA)

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SUBJECT: CALDERON NAMES ECONOMIC CABINET

REF A. Mexico 6516
[1](#)B. Mexico 6424
[1](#)C. Mexico 6065
[1](#)D. Monterrey 1361
[1](#)E. Mexico 6413
[1](#)E. Mexico 5810
[1](#)G. Mexico 6542
[1](#)H. Mexico 6067

SUMMARY

[1](#)1. Mexican stocks jumped 1.6 percent on November 21 after President Elect-Calderon announced his Economic Cabinet. Many of the members were expected, having worked on the transition team, and/or for the Fox Administration. The new Secretary for Telecommunications and Transport Luis Tellez,

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however, was a member of the PRI who worked for past PRI governments. The only somewhat surprising choice is Secretary of Energy Georgina Kessel Q but she served as

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head of the Mexican Federal Regulatory Commission on Energy. Together, the new cabinet represents a consistent message that Calderon intends to continue the policies that have led to Mexico's macro-economic success and stability. The cabinet includes some U.S.-educated members, including former Fulbrighter (Kessel) and at least one participant in a U.S. Embassy International Visitor Program (Tourism Minister Elizondo). Since being officially named winner of the Presidential election in September 2006, Calderon has consistently called for economic reforms to create jobs by promoting public and private investment in infrastructure and undertaking fiscal, labor, energy, education and other economic reforms to improve Mexico's competitiveness (REFS A-D). The key for the new cabinet will be to move beyond rhetoric and actually implement reform. This would require tackling the monopolies, oligopolies and other special interests that have blocked reform in the past (REF E). Specific challenges facing each Minister are described below. END SUMMARY

12. On November 20, President-elect Calderon announced his Economic Cabinet:
Secretary of Finance, Agustin Carstens

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Secretary of Energy, Georgina Kessel

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Secretary of Economy, Eduardo Sojo Garza Aldape

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Secretary of Communications and Transport, Luis Tellez

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Kuenzler
Secretary of Labor, Javier Lozano Alarcon

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Secretary of Tourism, Rodolfo Elizondo

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Agustin Carstens, Secretary of Finance

13. (SBU) Agustin Carstens' expected appointment as Secretary of Finance (Hacienda) will undoubtedly be well-

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received in the financial community, as he is known to be a solid economist and a skillful negotiator. Carstens, who was the head of Calderon's economic transition team, has already begun work on his initial tasks of developing the new government's economic program and the 2007 federal budget. When announcing Carstens' appointment to his transition team in October, Calderon noted that Carstens was charged with designing an economic program that would maintain macroeconomic stability and strengthen public finances in order to improve Mexico's competitiveness and generate jobs. In accepting his appointment, Carstens pledged to work to boost employment and combat poverty. Carstens had earlier been quoted saying that in order to achieve faster growth and poverty reduction, successful integration needs to be accompanied by prudent macroeconomic policies and a deepening of structural reforms.

14. (U) Carstens was Deputy Managing Director at the IMF from August 1, 2003 to October 16, 2006 and an Executive Director at the IMF from 1999 to 2000. Prior to taking his position as the Fund's Deputy Managing Director, Carstens

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was Mexico's Deputy Secretary of Finance. He also held senior positions at the Bank of Mexico, including those of head of operations and chief economist, and he was an Alternate Governor for Mexico at the Inter-American Development Bank and the World Bank. Born in 1958, Mr. Carstens received his BA in Economics from the Autonomous Technological Institute of Mexico (ITAM) in 1982, and his MA and Ph.D. in Economics from the University of Chicago in 1983 and 1985, respectively. Mr. Carstens has published many articles in leading journals in Mexico and abroad. He is fluent in English. (See REF H for additional information on Carstens.)

Georgina Kessel, Secretary of Energy

15. (U) In the press conference announcing her appointment as Mexico's first female Secretary of Energy, Georgina Kessel Martinez underscored the importance of the petroleum sector for public finances and said she would work for a significant modernization of the sector, preserve the national patrimony, and seek more autonomy for Pemex, the

national monopoly, as well as improve the firm's operational capacity.

¶6. (SBU) Kessel's greatest challenge will be reversing Mexico's declining oil production (REF E) and addressing massive inefficiencies in Pemex. The Mexican constitution forbids private or foreign investment in oil production. Absent fiscal reform to reduce the amount of Pemex revenue going to support the state budget, it is difficult to see how the firm can obtain the funds it needs for required investment to prevent significant production declines over the next five to eight years. Finding policy options (including possibly joint ventures and some foreign investment) that will bring in needed investments will be a key preoccupation.

¶7. (U) Kessel's most recent position, before being named Energy Secretary was as director of the Mexican Mint (Casa de Monedas). She also served as the first President of Mexico's Energy Regulatory Commission, the CRE. She has also served in the Mexican Secretariat of Finance/Treasury (Hacienda) as an Assistant Secretary for Investment and Privatization and at the Secretariat of Trade and Industrial Promotion, a precursor to today's Secretariat of the Economy.

¶8. (U) As an academic, Kessel taught for nine years at the prestigious Instituto Tecnológico Autónomo de México (ITAM). Starting her career as an office secretary in the travel industry, later she earned a bachelor's degree in economics at ITAM and won a 1980 Fulbright scholarship to Columbia University where she earned a Masters and PhD, also in economics. The Fulbright panel considering her candidacy singled her out for leadership potential.

¶9. (SBU) Kessel worked with leading Mexican economists Enrique Davila and Santiago Levy to develop Mexico's "Plan Puebla Panama" that supports development of Southern Mexico and Central America. This could suggest that the Calderon administration may retain the Fox team's Mesoamerican Energy Integration Plan (PIEM), an outgrowth of the Plan Puebla Panama. Earlier key Calderon staffers had suggested that the incoming Calderon team would scrap the PIEM.

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Eduardo Sojo Garza Aldape, Secretary of Economy
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¶10. (U) In accepting his appointment as Secretary for the Economy, Eduardo Sojo Garza Aldape promised to promote foreign investment and strengthen international trade in order to make Mexico one of the most attractive investment destinations in the world. He also pledged to work with the Mexican Congress and other sectors of the country.

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During the recent presidential campaign, Sojo worked in the Calderon war room on economic policy issues. Since the election, he has been Calderon's transition coordinator. Sojo is well-regarded in Mexico and brings with him a considerable amount of policy and academic experience in economic affairs.

¶11. (SBU) Sojo has pointed with great pride to the economic (and political) stability that the Fox Administration is bequeathing to its successor but has lamented its inability to gain congressional support for the sort of structural reforms necessary for a higher growth rate. As Secretary of Economy, Sojo will be responsible for international trade, foreign investment, industry and commerce, small and medium-sized enterprises, and intellectual property rights. Key challenges that Sojo will face include the implementation of Mexico's final and most painful NAFTA obligations (including corn and beans). Other challenges are strengthening the international competitiveness of Mexican industry, and diversifying

Mexico's exports (at present, the U.S. takes approximately 85 percent of Mexico's exports).

¶12. (U) Sojo served as Coordinator of Public Policy in the Office of the President during much of the Fox Administration, and had worked on Fox's transition team in ¶2000. Prior to that, he had been Coordinator of then-Governor Fox's Economic Cabinet for the state of Guanajuato. Even earlier, he had been Technical Director and Short-Term Statistics Director of INEGI (National Geography and Statistics Institute). From 1979 to 1982 he performed a variety of activities as an analyst in the General Economic and Social Policy Bureau. He has been a researcher and professor at the Monterrey Institute of Technology and Advanced Studies, and has authored numerous economic articles in various periodicals and reviews. Together with Nobel Prize winner Lawrence Klein, he published research on combined time series and econometric modeling. Born January 9, 1956 in Leon, Guanajuato, Sojo earned his Bachelors in Economics from the Monterrey Institute of Technology and Advanced Studies, and a Masters and PhD from the University of Pennsylvania.

Luiz Tellez Kuenzler, Secretary of Communications and Transport

¶13. (SBU) In accepting his appointment as Secretary of Communications and Transport, Luis Tellez Kuenzler pledged to make infrastructure a priority. He said that providing adequate infrastructure to the most vulnerable regions of Mexico was the only way to close the economic gap between Mexico's regions. He said the way to help the poorer regions was to expand coverage of infrastructure and telecommunications, and increase competitiveness.

¶14. (SBU) Besides Mexico's underdeveloped infrastructure, especially in the southern part of the country, Tellez's greatest challenge will be to encourage competition in the monopoly/oligopoly-dominated telecom and transportation sectors, and encourage the roles of regulators such as the Federal Telecommunications Commission (Cofetel) and the Federal Competition Commission (Cofeco). The current Secretariat Telecommunications has favored dominant firm,

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Telmex, but Cofetel and Cofeco did limit his most recent attempts at favoritism (SEE REF G) While Telemex remains a near monopoly in fixed telephone service, it is starting to face some challengers. Fixed-line competition will deepen now that the merged company Axtel/Avantel has laid 8,000 kilometers of cable and has a readily available internet protocol (IP) based solution for calls. Tellez comes into office in a time of great technological development in the world, though the benefits of this technology are not available to many Mexicans. He faces the challenge of bringing technology "to the last mile" in Mexico, encouraging the spread of broadband and WiMax access while

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at the same time making sure that such simple technology as telephone lines are also available to underserved populations of Mexico.

¶15. (U) Tellez has been a member of the PRI, but may not currently be an official PRI member since he endorsed Calderon in the Presidential campaign. (Comment: PRI members tell Emboffs they do not consider people like Tellez to be PRI members of Calderon's government because they had endorsed Calderon. End Comment) Tellez is currently the Mexico City Managing Director of The Carlyle Group, one of the world's largest private equity firms. Before joining the Carlyle group, he was Executive Vice President and CEO of DESC, SA de CV (DESC is a firm working in Mexico with activities in auto parts, chemicals, food

and real estate.) In addition to his strong connections with the finance and business community, he has solid government experience. Tellez served as Secretary of Energy from 1997 to 2000, previous to which he served as President Ernesto Zedillo's Chief of Staff. In 1998 and 1999, Mr. Tellez headed Mexico's oil diplomacy efforts and played a key role in restoring stability in international oil markets and oil prices.

¶16. (U) Tellez earned his B.S. in economics from the Instituto Tecnológico Autónomo de México and his Ph.D. in economics from MIT. From 1987 to 1993, Tellez served in several senior positions in the Mexican government, including Head Economist at the Ministry of Treasury and Undersecretary of Planning at the Ministry of Agriculture. After the Mexican peso crisis of 1995, Tellez helped secure the financial rescue package of USD 50 billion granted to Mexico by the US and other major financial institutions.

Javier Lozano Alarcon, Secretary of Labor

¶17. (U) In accepting his appointment as Secretary of Labor, Javier Lozano Alarcon promised to work for a competitive economy in Mexico, so that people would not have to emigrate; changing the dynamic so that labor would not leave the country and investment would come in. He pledged to work with the unions and workers, without discrimination by acting as an intermediary to promote negotiation and agreement. He also pledged to comply with Article 123 of the Constitution, the Federal Labor Law.

¶18. (U) Incoming President Felipe Calderon has repeatedly said that job creation will be one of the highest priorities of his administration. In order to help Calderon accomplish this job creation, Mexico's Secretary of Labor designate, Javier Lozano Alarcon, will face many challenges. In post's view four of the more significant challenges will be as follows:

¶19. (U) One of the very first things Lozano will have to do is familiarize himself with Mexico's organized labor movement. Lozano is not a new player on Mexico's economic/political scene but up until now he has not been known for his expertise on labor or labor related issues.

¶20. (U) Next, in order to help with job creation Lozano will have to address the problem of competitiveness. This will be a significant task since there appears to be little concurrence in Mexico on exactly what is meant by competitiveness and even less agreement on how competitiveness should be measured.

¶21. (U) The third item on Lozano's to do list, should be to promote a major reform of Mexico's labor laws. There is widespread agreement among all the relevant sectors of Mexico's economy that the country's labor laws are inflexible, unrealistically slanted in favor of the worker and nearly impossible to comply with even for those employers who might be inclined to do so. Unfortunately, there is almost no agreement on how to strike a balance

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between changes that could foster competitiveness and maintaining the correct level of worker rights.

¶22. (U) Finally, as Labor Secretary, Lozano should be willing to help the incoming Calderon administration to take on the task of regulating or in some way organizing the informal sector of Mexico's economy. This is another area of disagreement where some say that the informal economy makes up a minimum of 23 percent and others (including the OECD) say a maximum of 43 percent of Mexico's workforce.

¶23. (U) Lozano, an attorney, was most recently working as a private consultant on policy and telecommunications, having left government to work on the Calderon campaign since its early days. He is also a weekly contributor to the El Universal newspaper, and the Magazine Vertigo, Publishing Advisor for the magazine El Seminario, and commentator for the radio program "Financical Forumula" and TV Azteca program, "Puebla." Lozano also served as Academic Coordinator for Personnel Management for the National Public Administration Institute, and is a law professor at the Escuela Libre (Free University) of Mexico City, and at the University of Anahuac del Sur.

¶24. (U) In March 2003, Lozano was appointed Representative of the State of Puebla in Mexico City, and later became Puebla's General Coordinator of the Commission for Transparency in Public Sector Lending, whose main objectives were to promote transparency and prevent corruption in provision of public services. He resigned these positions in January 2005 to join the Calderon campaign.

¶25. (U) In March 2001, Lozano founded the firm Javier Lozano and Associates as "strategic consulting firm for projects and companies."

¶26. (U) In May 1999, Lozano was appointed Under Secretary for Social Communication for the Ministry of the Interior (Secretaria de Gobernacion), acting as liaison between the federal government and the electronic and printed media, in addition to establishing broadcasting and publicizing criteria for Ministries and federal state-owned entities. Lozano was also Chairman of the Governing Board for the Mexican Radio Institute and Chairman of the Notimex Board of Directors.

¶27. (U) In April 1998, Lozano was appointed President of the Federal Telecommunications Commission (Cofetel). In August 1996, he had been appointed Communications under Secretary for the Ministry of Telecommunications and

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Transport. There, he coordinated the division in charge of procedures for granting concessions and permits for radio and television, and initiated the Rural Telephony Program.

¶28. (U) In January 1995, Lozano was designated Chief of Staff (Oficial Mayor) for the Ministry of Telecommunications and Transport in charge of general management of human, financial and material resources, and coordinating the legal commissions that prepared the drafts for amending article 28 of the Constitution to allow private investment in satellites and railroads; as well as for preparation of the Regulations for Railway Services, the Federal Telecommunications Law, the Airport Law and the Civil Aviation.

¶29. (U) From December 1994, Lorenzo had served as Corporate Comptroller General for Pemex. Thereafter, he was designated Director General for Standards and Administrative Development in the Under Secretariat for Spending of the Ministry of Finance and Public Credit, where he worked on civil service policies of the federal public administration, and norms applicable to public acquisitions and works. At that time, he coordinated preparation of the draft Law on Public Acquisitions and Works, which was enacted in 1994.

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¶30. (U) In 1989, Lorenzo had started working for the Mexican Ministry of Finance as Director for Private External Credit. At the same time, he worked as Minutes Secretary (Secretario de Actas) for the Banking Divestiture

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Committee and participated in the commissions in charge of drafting the Credit Institutions Law, and the Law to Regulate Finance Groups. He took the position as Advisor Coordinator for the Under Secretary of Standards and Budget Control within this Ministry, where he participated in the first work teams that created Mexico's Retirement Savings System. From May 1987 to October 1989, Lozano was Legal Manager of the Petrochemical Sector for Grupo Industrial Alfa. From December 1984 to May 1987, he worked as a law clerk at the Bank of Mexico (Mexico's Central Bank) Legal Orders Directorate. Lozano is a graduate of the Escuela Libre de Derecho (Law) in Mexico City in 1986, and was born in Puebla on November 21, 1962. He is married to Silvana Ponzanelli, and has four children.

Secretary of Tourism Rodolfo Elizondo

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¶31. (U) Rodolfo Elizondo was unable to attend the ceremony announcing his re-appointment as Secretary of Tourism, since he is on a working visit to Japan. Elizondo has held the position of Secretary of Tourism since August 1, 2003 when he replaced Fox's first tourism secretary Leticia Navarro after the PAN lost ground in mid-term elections of that year.

¶32. (SBU) Elizondo has supported what were sometimes considered radical changes to transform the tourism sector. During his time as Senator, he served on the Commission for Tourism and was a strong proponent for installing casinos. He has publicly stated that the new government will have to greatly increase investment in the sector and modify the Tourism law if it plans to achieve Calderon's goal of making Mexico the fifth world tourism power during the next sexenio.

¶33. (SBU) Politically, Elizondo has been known for being more pro-Fox than pro-PAN and is known for being blunt in speaking his mind. This has not endeared him to the traditional PAN elite but has appeared to have little effect on his work as Tourism Secretary.

¶34. (U) Prior to his promotion to the cabinet level position, he served as Fox's communications director/spokesperson from January 1, 2002 and, before that, was Fox's Coordinator for the President's Office of Civic Alliance. He also served as Political Coordinator for Fox's presidential campaign where he was in charge of bolstering support outside of PAN.

¶35. (U) Elizondo is a 23 year member of PAN hailing from the Durango province. Since his win as Mayor of Durango, he has also served 2 terms as a federal deputy and has been a Senator. In 1990, during his time as Federal Deputy Coordinator for PAN he was the recipient of an individual International Visitor grant. He has served as manager and director of numerous businesses in his home state. Elizondo was born in Durango, Durango on July 18, 1946. he holds a Bachelor's in Business Management from the Monterrey Institute of Advanced Studies and a degree from the University of Kansas.

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